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C O N F I D E N T I A L SECTION 01 OF 02 NEW DELHI 006846

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SUBJECT: GOI MINISTER: NO THIRD FRONT, UPA TO PUSH FOREIGN  
RETAIL INVESTMENT

REF: NEW DELHI 6637

Classified By: A/DCM Geoff Pyatt, for Reasons 1.4 (B, D)

1. (C) Summary: GOI Minister and Congress leader Jaipal Reddy told A/DCM on September 2 that the US-India relationship was welcomed "across the political spectrum" in India, despite some insincere sniping from the opposition. While the Left Front has staked out opposition to some UPA efforts, it will not obstruct issues it cannot win, because it is too committed to the UPA government. Reddy speculated that West Bengal CM Buddhadeb Bhattacharjee will be the future Communist Party of India (Marxist) (CPM) leader, and dismissed the possibility that the CPM would split from the UPA to form a third front with regional parties. Congress leadership, hoping to make progress on financial reform after several false starts, believe that the government can open the retail sector to foreign investment. End Summary.

All Welcome US-India Agreement  
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2. (C) Congress Party leader and Minister for Information and Broadcasting Jaipal Reddy said that politicians "across the spectrum" welcomed the US-India joint statement following PM Singh's July Washington visit. The BJP and Left had chosen to posture in opposition instead of taking credit for their part in the transformed relationship, but Congress might have done the same in opposition, Reddy admitted. The BJP did not oppose the agreements out of principle, he said, so their complaints have fallen flat.

Left Front Committed to UPA; No Third Front  
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3. (C) Although the Left has grumbled about the US-India relationship, the UPA has staked out such an inflexible position in this area that the Left has no choice but to go along, Reddy said. They cannot oppose the agreement successfully without withdrawing support from the government, which they will not do. The Left Front leadership "indicates" to the UPA where it can yield and where it will not, Reddy reported, but will not in any case defect to a "third front" with regional parties as they know it would not be viable. Although the BJP is now in disarray, Reddy conceded it would "get its act together" if the government fell due the Left Front, and the strong anti-incumbency sentiment in Indian politics could benefit the BJP in an election to the detriment of the Congress and Left.

4. (C) The Left's "accomplishment" overall has been to slow the pace of economic reform, but not stop it, Reddy stated. The CPM has to echo the positions of the trade unions who are the source of its funding, but any leader who has had to rule, like West Bengal's former and current Chief Ministers Jyoti Basu or Buddhadeb Bhattacharjee, knows how difficult it is to follow the Left's full-employment schemes. Even "sloganists" in the CPM know that their slogans are impractical, Reddy commented.

UPA's Reform Agenda: Retail Next  
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5. (C) After conceding to the Left's redlines on disinvestment and earning its approval on the recently-passed rural employment guarantee bill (reftel), Reddy stated that the UPA would turn to liberalization in the retail sector, including opening to foreigners, as the next reform area. The Left Front has signaled that it would not obstruct this area, unlike the more sensitive (to the CPM) issues of disinvestment. COMMENT: The BJP, however, will put up a fight on behalf of small traders, many of whom support the party. END COMMENT.  
Congress Will Lose Kerala to CPM  
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6. (C) Reddy admitted that in addition to winning the 2006 legislative assembly elections in West Bengal, the Communists would likely win in Kerala at the expense of Congress. The Congress Party does not see even a chance of defeating the CPM. Bhattacharjee will be the future CPM national chief, he speculated, noting that ultimately the pragmatic reform ideology of Bhattacharjee's West Bengal branch of the CPM

would prevail in the party, but it would take time for the institution to change its position.

17. (C) The media perception of current CPM Prakash Karat as an ideological hardliner is not correct, Reddy stated. Karat understands economics, but he is professing a hardline Communism in order to fight the elections in West Bengal and Kerala. Karat also understands that his current Left Front share in the Lok Sabha is "unprecedented," and unlikely to be repeated, Reddy added, and will not risk his influence by bringing down the UPA government.

Comment: Smooth Sailing for Congress  
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18. (C) Despite recent media spotlight on the disagreements between the Congress and its Left Front supporters, Reddy's optimism suggests that the Congress leadership believes that it will be able to push forward its agenda of strengthened ties with the US and moderate advances in domestic economic reform. Although the UPA is undeniably disappointed at losing battles with the Left over disinvestment in public sector undertakings, it seems to have reached an accommodation with the Left parties to avoid certain sacred cows in exchange for permission to tinker with the remaining areas for economic liberalization.

19. (U) Visit New Delhi's Classified Website:  
(<http://www.state.sgov/p/sa/newdelhi>)  
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